

MULTIMEDIA



UNIVERSITY

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2017/2018

**DAU5028 – AUDITING 2**

(For Diploma Students Only)

24 OCTOBER 2017

2.30 p.m.- 5.30 p.m

(3 Hours)

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### INSTRUCTIONS TO STUDENT

1. This question paper consists of 9 pages with 3 sections.
2. For section A and B, shade your answers in the OMR sheet provided.
3. For section C, write your answers in the answer booklet provided.

**SECTION A: MULTIPLE CHOICE QUESTIONS (Each question carries 1 mark).**  
**Answers for this section should be shaded on the OMR form.**

1. Which of the following is NOT a group of revenue?
  - A. Purchases of asset.
  - B. Sale of goods.
  - C. Rendering of services.
  - D. Interest, royalties and dividend.
  
2. The document used to indicate to the customer the amount of sales and payment due date is the \_\_\_\_\_.
  - A. sales order
  - B. debit memorandum
  - C. delivery order
  - D. sales invoice
  
3. When is the earliest point in the sales cycle in which revenue can be recognized?
  - A. When the sale is approved.
  - B. When the cash is collected.
  - C. When the customer received the goods.
  - D. When customer order is recorded.
  
4. A document sent to each customer showing his or her beginning accounts receivable balance and the amount and date of each sale, cash payment received, any debit or credit memo issued, and the ending balance is the \_\_\_\_\_.
  - A. remittance advice
  - B. monthly statement
  - C. bill of lading
  - D. sales invoice
  
5. The document that requires adjustments to the customers subsidiary ledger account is the \_\_\_\_\_.
  - A. bank reconciliation
  - B. write off authorization form
  - C. sales order
  - D. credit memorandum

Continued...

6. A document mailed to the customer and typically returned to the seller with the cash payment is called as \_\_\_\_\_.

- picking ticket
- remittance advice
- sales invoice
- pre-listing cash receipt

7. A document that contains the account and the details of transactions with each customer is called as \_\_\_\_\_.

- trial balance
- bill of lading
- account payable subsidiary ledger
- account receivables subsidiary ledger

8. In a credit sales environment, which of the following documents serves as the basis for internal processing of an order?

- bill of lading.
- sales invoice.
- sales order.
- delivery order.

9. \_\_\_\_\_ is a document used by company to control payment for acquired goods.

- receiving report
- payment voucher
- purchases journal
- purchase order

10. After a purchase requisition is approved, a \_\_\_\_\_ must be prepared to purchase the goods or services.

- purchase order
- call order
- supplier order
- supplier invoice

**Continued...**

**SECTION B: TRUE AND FALSE.(Each question carries 1 mark).Answers for this section should be shaded on the OMR form. Mark “A” for the TRUE statement and “B” for the FALSE statement.**

11. Analytical procedures are used to examined the fairness of account balance.
12. An auditor would normally be expected to personally prepare the confirmation forms.
13. Tests of controls and substantive tests of transactions are normally conducted simultaneously on the same transactions.
14. An auditor should perform lapping procedures to substantiate the existence of accounts receivable when no reply to a positive confirmation request is received.
15. One of useful method to audit depreciation is to use cut-off procedure to test for reasonableness.
16. Auditors tests of the client's bank reconciliation is done to verify whether the client's recorded bank balance is the same amount as the actual cash in the bank.
17. Normally, all deposits-in-transit listed on the year-end bank reconciliation should appear as deposits on the subsequent bank statement.
18. Auditor seldom performs detailed substantive testing of the petty cash fund, except when fraud is suspected.
19. The record of the issuance and repurchase of share for the life of the corporation is maintained in the share capital certificate records.
20. The exclusion of a single equity transaction is often highly material.

Continued...

**SECTION C : STRUCTURED QUESTIONS (80 MARKS). Answer ALL questions.**  
**Answers for this section should be written on the answer booklet provided.**

**QUESTION 1**

(a) Each of the following situations involves a possible violation of the MIA's By-Laws. For each situation, state whether it is a violation and provide explanation for each. (12 Marks)

- (i) Julia Alyssa is an audit senior at Tim & Co., an audit company located at Petaling Jaya. She has 5 years' experience working in the audit firm. Recently, she told her audit partner that she owns 2,000 units of shares in an audit client of the firm though she is not involved in the audit of the client. The value of the share is immaterial in relation to her total wealth.
- (ii) Reza & Co. is an accounting firm that provides both assurance service and non-assurance services for their client. One of the non-audit client request assistance from Aiman, an auditor, in the installation of their new accounting system which is called Vztec system. Aiman has no experience pertaining to the work. He does not have the knowledge to use Vztec system and does not know about the client's business operation. Therefore, he obtained assistance from a computer consultant that he hired. The consultant is not in the practice of public accounting, but Aiman is confident of his professional skills. Due to the highly technical nature of the work, Aiman is not able to review the consultant work.
- (iii) Chua & Co. is negotiating the audit fee with a new audit client, Glasslock Berhad. Both parties agree that the client will pay RM 40,000 if Chua & Co issues a clean, unqualified opinion, RM 20,000 if a qualified opinion is issued and only RM 10,000 if an adverse opinion is issued.
- (iv) Linda, an auditor of Lily & Co, advertises in one of the famous business magazine that her firm does the audit of more than 60% of manufacturing companies in Malaysia. In the advertisement, it is stated that the fees charged for the assurance services is lower than any other firm in the country.

*(Note: Use the table format as presented below to write your answers)*

No	Violation of MIA By-Laws? (Yes/No)	Explanation
(i)		
(ii)		
(iii)		
(iv)		

**Continued...**

(b) "When a professional accountant identifies threats to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an acceptable level, the professional accountant shall determine whether appropriate safeguards are available."

**Required:**

- (i) Define safeguards. (2 Marks)
- (ii) State the TWO (2) categories of safeguard as stated in MIA By-Laws. (4 Marks)
- (iii) Provide any TWO (2) examples of threat to compliance. (2 Marks)

[TOTAL 20 MARKS]

**QUESTION 2**

**PART A**

In your audit of FJ Furniture Berhad's financial statement for the year ended 31 December 2016, the following transactions came to your attention.

- i. FJ Furniture Berhad purchases raw materials from Jati Wood Sdn Bhd, a company owned by Steve Martin. Mr. Steve is the Executive Managing Director of FJ Furniture Berhad and he is also the member of the company's board of directors.
- ii. One of FJ Furniture Berhad main customers is Furniture Trading Sdn Bhd. Furniture Trading Sdn Bhd has been purchasing various types of office furniture from FJ Furniture Berhad for the last 15 years under a long-term contract arrangement.
- iii. FJ Furniture Berhad rented two warehouses from Hilton Property Sdn Bhd and pays a rental amounting RM 20,000 every year. The owner of Hilton Property Sdn Bhd is Mr Paul Hilton who is the husband to Mrs Helen Hilton. Mrs Helen Hilton is the largest shareholder of FJ Furniture Berhad.
- iv. On 20<sup>th</sup> January 2016, FJ Furniture Berhad acquired 40% shares of Delima Home Sdn Bhd. During the year, the company provides a loan amounting RM 60,000 to Delima Home Sdn Bhd to finance the expansion of the company gallery.

**Required:**

- (a) Define related party. (2 Marks)
- (b) Based on each of the transactions above, identify whether it is a related party transaction or not. Provide explanation for your answer. (12 Marks)

**Continued...**

**PART B**

Based on International Standard on Auditing (ISA 600), principle auditors are allowed to use the work of another auditor on the financial information of one or more components included in the financial statements.

**Required:**

(a) What is “component” as referred to the above statement? (2 Marks)

(b) Provide any **TWO (2)** advice that principle auditor may provide to another auditor during the audit planning. (4 Marks)

**[TOTAL 20 MARKS]**

**QUESTION 3**

(a) Jaya Metal Berhad is a manufacturing company which has been trading for more than 10 years. The following are procedures related to the purchasing process in the company.

Employees in any department can request to purchase goods or materials they note as out of stock. The employee can complete a purchase requisition form and the form will be submitted to the purchase ordering department. Each of the purchase requisition form is not pre-numbered.

Every day, the clerk in the purchasing department processes of all purchase requisitions from the prior day. Any request for raw materials from the same supplier is combined into a single purchase order form to obtain volume discount. Purchasing agent uses the Internet to compare prices in order to select suppliers. If the internet search discovers a potential new supplier, the purchasing agent will add the supplier's name onto the approved supplier list.

The purchasing clerk will complete the sequentially pre-numbered purchase order form based on the information from purchase requisition form. Mr. Tan, the purchasing department manager will approve purchase order form with the amount more than RM 10,000. Once the purchase order form is complete, the original form is sent to the supplier and copies to the requestor department and account payable department.

**Continued...**

All good received from the supplier will be handled by a purchasing clerk. When the goods are received in the warehouse, the purchasing clerk will verify the quantity to the supplier's delivery order form. The purchasing clerk will fill up the details of good received in sequentially pre-numbered receiving report and send a copy of the report to account payable department.

Upon receiving a purchase order, the account payable clerk files it in the open purchase order file. When a supplier's invoice is received, it is matched with the applicable purchase order form, and a payable is created in the purchase ledger. Subsequently, a payment voucher will be prepared as well for payment process. The payment voucher will be reviewed and approved by the finance manager and submitted to the cashier.

**Required:**

As the external auditor of Jaya Metal Berhad, identify and explain any **FIVE (5)** weaknesses and its risk in the purchasing process. You need to suggest **ONE (1)** internal control for each.

*(Note: Use the table format as presented below to write your answer)*

No	Weaknesses	Risk	Internal Control
1.			
2.			
3.			
4.			
5.			

**(15 Marks)**

(b)

**Audit objective:**

To determine whether the internal controls over loans payable are adequate.

**Required:**

- (i) Define loan payable. (1 Mark)
- (ii) State any **TWO (2)** example of internal control procedures related to loan payable. (4 Marks)

**[TOTAL 20 MARKS]**

**Continued...**

**QUESTION 4**

(a) Ahmad, an audit assistant at Chong & Co is assigned to examine the sales cycle of Pena Wholesale Stationary Berhad. The following are among the audit objectives that must be met by Ahmad before concluding that sales transactions of company are properly recorded.

No	Audit Objective
i.	Recorded sales are for shipments actually made to valid customers.
ii.	All existing sales transaction is recorded in sales journal.
iii.	Sales are recorded on the correct dates.

**Required:**

For each of the audit objective above, suggest substantive test of transaction that Ahmad can perform to verify the sales transaction in Pena Wholesale Stationary Berhad.

*(Note: Use the table format as presented below to write your answer)*

Audit Objective	Substantive test of transaction
i.	
ii.	
iii.	

**(6 Marks)**

(b) State the audit procedures involved in testing the following assertions for plant, property and equipment account balances.

*(Note: Use the table format as presented below to write your answer)*

Assertion	Audit procedure
i. Completeness	
ii. Addition	
iii. Disposal	
iv. Ownership	

**(8 Marks)**

**Continued...**

(c)

- i. Examine duplicate copies of loans for authorization and examine the minute's record for loan approval.
- ii. Examine duplicate copies of loans to determine whether loans were dated on or before balance sheet date.
- iii. Examine loans to determine whether the company has obligation for payment.

**Figure 1**

State the purpose of each the three audit procedures listed in **Figure 1** above.  
**(6 Marks)**

**[TOTAL 20 MARKS]****End of Page.**